



The Commonwealth of Massachusetts

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Talking Points

Acknowledgments / Introduction

Chairwoman Spilka, Chairman Sanchez and Members of the Committee – thank you for the opportunity to testify before you today regarding the Governor’s proposed budget as we approach Fiscal Year 2019.

ABCC

As you’ve heard me say in the past, and as the independent Alcohol Task Force recently concluded in their report, “by any measurement, the [Alcoholic Beverages Control Commission (ABCC)] is woefully underfunded and understaffed.”

To give you an overview, from 2008-2017 the number of licenses and permits processed by the ABCC has increased from around 19,000 to over 32,000 licenses per year, a 68 percent increase. The number of inspections and investigations has also risen dramatically from 6,800 to over 8,000 per year.

The ABCC has taken on this additional workload without a commensurate increase to either their funding or staff. The legislative appropriation for the ABCC increased just 3 percent from \$2.36 million in FY09 to \$2.44 million in FY18. At the same time, the Consumer Price Index (CPI) went up by over 11 percent and the state’s budget increased by 42 percent.

Just last August, we came dangerously close to laying off 30 percent of our workforce to absorb operational costs. Our rent increased as the result of a new long-term lease negotiated by DCAMM by \$20,000 annually, our personnel costs increased due to a step increase of \$127,000, and our collaboration with the Executive Office of Technology

Safety and Security to pilot the new e-Licensing system resulted in a charge back to us of \$360,000.

Right now, we are 45th in the nation when it comes to the number of inspector investigators per licensee. Typically, states have an average of 1 inspector investigator for every 261 licensees, whereas Massachusetts has just 1 for every 800 licensees. If we had sustained the layoffs, we would have been 50th in the nation in coverage for our licensees.

I am very proud of everyone who works at the ABCC. Their dedication to their jobs is at the highest level. And despite these statistics they provide exemplary service to our state.

The ABCC plays an important role in the economic vitality of our Commonwealth. It supports small business growth throughout every community, protects consumers, and promotes public safety. The Commission generates direct revenue to the general fund – an anticipated \$4.9 million in FY18.

The Governor proposed increasing the ABCC's appropriation from \$2.44 million in FY18 to \$3.33 million in FY19. This increase would allow the ABCC to hire 5 new inspector investigators and an associate general counsel, and would bring the two part-time Commissioners up to full-time.

While we appreciate what the Governor has proposed, we request that this Committee consider an additional, incremental increase for several reasons. Our requested appropriation of \$3.69 million in FY19 will enable the Commission to function properly and more efficiently. We really must have vehicles for the new inspector investigators, in order for them to travel across the state from site to site. We need to hire the administrative staff to coordinate the continuously expanding operations necessary to manage the ever-increasing number of licensees, and we really need the additional expertise in elicensing/IT. We are simply asking for the basics for a properly running agency.

Investing in the ABCC will allow us to modernize and keep up with a rapidly changing industry, promoting local and statewide economic development, and improving health and safety outcomes. I look forward to working alongside you to fund the Commission's operations.

Lottery and Local Aid

Moving to the state Lottery, we were able to deliver a net record profit of over \$1 billion for the first time in our history. This accomplishment did not come easily.

Please note that historically more than 70 percent of all Lottery sales come from one product line: instant tickets. Over the past 5 years, instant ticket sales have flat lined. Moving forward, we anticipate that sales for instant tickets will continue to remain flat or decline year-over-year – a trend that is reflected nationally by most mature lotteries.

We have continuously increased efficiencies, expanded profitable games like Keno, diversified product offerings, and invested in our retail partners.

We have mastered the art of doing more with less. But at a certain point, you do less with less.

Our Lottery needs adequate resources and the flexibility to meet the demands of a changing marketplace. For FY19, consolidating Lottery's administration, monitor games, and advertising accounts and funding this new account at \$92.2 million will provide the needed flexibility to manage our resources more effectively and respond to changing business and operational needs.

Without a consolidated account, in order to build in sufficient flexibility, Lottery will need to restore their advertising line-item to the FY16 level of \$8 million. Massachusetts has the lowest advertising budget by far of any of the top ten gross selling lotteries in the nation, with advertising funding falling from \$8 million in FY16 to just \$4.5 million in FY18. For example, Lottery sales in Texas and Massachusetts are both roughly \$5 billion annually, yet Texas has an advertising budget of \$35 million (.7 percent of total sales) while we have an advertising budget of just \$4.5 million (.09 percent of total sales).

We also need to look to the future. Consumers' purchasing habits and methods of engagement and entertainment continue to change. We must change with them.

I think you will agree with me that cash only, point of sale transactions have been highly impacted by online retail businesses. Cyber Monday was the largest ever single day of online sales in U.S. history. Online sales totaled \$6.59 billion, with purchases made on smartphones also breaking a record with \$2 billion in sales.

A growing number of states have recognized this trend and have expanded their lotteries online. Our neighbor to the north, New Hampshire, will soon become the 5th state to start selling products online, behind Kentucky, Illinois, Georgia, and Michigan.

The numbers coming out of Michigan indicate not only robust internet sales, but also increased retail sales and, as a result, more money for the individual retailers.

In its first full year online, the Michigan Lottery produced \$146 million in sales online alone. The following year, online sales jumped to \$385 million – clocking in as one of the fastest growing lotteries, with records set for highest sales, highest prize payouts, and highest contributions to their beneficiary, the School Aid Fund.

Online sales did not cut into Michigan's retail market. Rather, traditional retail sales continued to increase year over year at roughly the same rate as in years prior.

The Michigan example demonstrates that, when done right, an online Lottery can support not only local communities, but also retail partners.

We have every intention of continuing our ongoing and unwavering commitment to our brick and mortar retail partners. We also recognize, however, that the Lottery needs to adapt to capture a new and growing market, collect better business intelligence, and institute safeguards that promote responsible gaming.

As we all strive to provide for our local cities and towns, let us also enable the Massachusetts Lottery to be an effective partner in these efforts.

Bond Rating/Pension Fund/Stabilization Fund

As Chair of the Board that manages our \$72 billion pension fund, I am very pleased to report that we ended the year with a 17.2% gain net of fees. These returns will help us put an almost \$11 billion dent in the state's unfunded liability, helping us meet our obligations to the more than 300,000 state employees, public school teachers, retirees and beneficiaries.

I would like to thank the Governor for sharing my commitment to addressing our pension liability.

The Governor's budget proposes over \$2.6 billion in pension funding. This investment keeps us on pace to achieve full funding by 2037 – almost three years before the statutory requirement.

The Governor has also taken steps to facilitate additional deposits into the state's Rainy Day Fund, committing not less than \$79.2 to the Commonwealth Stabilization Fund in FY19.

I realize that these investments will require tough decisions from this Committee. But, you know as I do, that these investments are critical in maintaining the state's strong bond rating – a rating achieved in large part due to this Committee's fiscal discipline.

As you craft your FY19 budget, I welcome the opportunity to collaborate with you and to reaffirm the priorities that have enabled us to achieve one of the highest quality state credits in the nation.

Defined Contribution

In collaboration with the Massachusetts Nonprofit Network, we launched the CORE Plan – a new statewide multiple employer 401(k) retirement plan available to Massachusetts nonprofit organizations with twenty or fewer employees.

The Massachusetts nonprofit sector ranks as the sixth largest in the nation, representing nearly 17 percent of the Massachusetts state economy. This sector employs over 520,000 people, 65 percent of whom are women. These women tend to live longer and are paid less than their male counterparts. Since retirement benefits are based on the accumulation of lifetime earnings, by the time women reach age 65 and older, they are more than two times as likely to be poor than older men (12 percent vs. 5.7 percent). The average American woman must save \$1.25 for every \$1 a man invests in retirement savings to build an equivalent fund and they are paid less.

Statistics tell us that 56 percent of small nonprofits with budgets of less than \$250,000, cannot afford to provide any retirement plans to their employees. The consequences are clear.

The CORE Plan aims to provide a critical service, helping people who typically have no access to retirement savings. This opportunity allows nonprofits to focus on the primary mission of their organizations, while offering a comprehensive retirement benefit to their employees.

Since the program's launch just three months ago, we have already seen growing interest in this innovative savings plan. Seven employers have adopted it and many more organizations have expressed an interest in participating, but unfortunately were not eligible due to their size - more than twenty employees. In fact, we just had to turn away an organization with twenty-one employees.

I look forward to collaborating with you to ensure that all of the employees who work in this sector have the ability to successfully save for retirement.

Economic Empowerment

Before I conclude, I would like to thank you for your ongoing support of the Office of Economic Empowerment.

The Economic Empowerment Trust Fund you authorized three years ago has helped us to reach thousands of Massachusetts residents, providing them the financial skills they need to thrive.

SeedMA, our college savings pilot program for kindergarteners, is up and running in Worcester and in Monson. We now have more kids planning to attend college or vocational training school and more families learning the money management skills necessary to attain economic stability and security.

SoarMA, our program that focuses on low-income middle school students, has begun enrolling students in Haverhill, Lowell, Pittsfield, Springfield, and Worcester. Funded through a public-private partnership, this program provides a matched college savings program and a financial education curriculum.

Additionally, in partnership with the Division of Banks, we have expanded our Credit for Life Fairs, which provide students with experiential learning and real life budgeting skills. In the past two and a half years alone, we will have issued a total of 123 grants to 74 different schools and served over 30,000 high school students.

Operation Money Wise, our financial education program for veterans and their families, has now served over 900 members of our military community. We will be announcing our 2018 grantees in just a few weeks, which will bring this program to even more communities.

Two weeks ago I announced the creation of Just Ask! the first in the nation, state-wide salary negotiation workshops for women. This initiative is a collaboration with the Massachusetts Community Colleges, Commission on the Status of Women, and the American Association of University Women (AAUW). Just Ask! will provide women across the state with the skills they need to address wage inequality head-on.

The Governor's budget provides the \$435,000 we requested for FY19. With bipartisan support, and our ongoing public-private partnerships, we look forward to the continued success of these important programs.

Conclusion

As always, I am grateful to you for considering our requests. So much of our collaboration with you generates additional revenues for the state, and we hope you agree, merits your continued support.

I sincerely understand your challenges and appreciate your efforts to produce a responsible state budget. Thank you for the opportunity to testify here today.

Please consider my office a partner and a resource to you as you move forward with this process.

Now, my colleagues and I are happy to answer any questions you may have.